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Message Text

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ACTION PM-05

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EO 11652: NA
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SUBJ: REVIEW OF TWO YEARS OF F-5 OFFSET

1. SUMMARY: THE MEMORANDUM OF UNDERSTANDING (MOU) ON OFFSET REQUIRES A FORMAL REVIEW OF PROGRESS UNDER THE AGREEMENT TWO YEARS AFTER THE EFFECTIVE DATE. THIS REVIEW WILL TAKE PLACE AT A WORKING LEVEL MEETING IN WASHINGTON ON OCT 19. IN PREPARATION FOR THE OCT MEETING, A MEETING WAS HELD AT THE OFFICES OF VEREIN SCHWEIZER MASCHINEN-INDUSTRIELLER (SWISS ASSN MACHINE INUDSTRIES - VSM) SEP 29-30 AT THIS MEETING, MARKED BY A SPIRIT OF COMPROMISE AND AN ATMOSPHERE OF GOOD WILL, IT WAS AGREED THAT US $27 MILLION WORTH OF OFFSET BUSINESS HAS BEEN DONE TO DATE. THE SWISS SEEMED MORE RELAXED ABOUT THE PROGRAM AND ITS PROSPECTS THAN AT ANY TIME TO DATE. END SUMMARY.

2. VSM HELD A PRESS CONFERENCE ON JUL 27. THE RESULTING PRESS COVERAGE WAS THE MOST OPTIMISTIC WE HAVE SEEN UP TO THIS TIME. EVEN THOSE PAPERS INCLINED TO TAKE A DIM VIEW OF THE PROSPECTS OF THE PROGRAM RECORDED THE FACT THAT PERFORMANCE UNDER THE AGREEMENT IS
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IMPROVING.

3. THIS ATTITUDE WAS REFLECTED IN THE MEETINGS ON SEP 29 AND 30. IN APPROXIMATELY ONE HOUR SWISS AND AMERICAN PARTICIPANTS AGREED THAT OFFSET ORDERS PLACED TO DATE TOTAL $26,865,778. CONSIDERABLE DISCUSSION OF CONTINUING PROBLEMS WITH THE IMPLEMENTATION

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OF THE MOU CENTERED MORE ON DIFFICULTIES ARISING IN
SWITZERLAND THAN ON THOSE ARISING IN THE US.

4. THE MOST CONTENTIOUS ISSUE RAISED IS RELATED TO
US CONTENT. SWISS MINISTRY OF DEFENSE REP RENE HUBER
ARGUED STRONGLY THAT WHEN A MAJOR COMPONENT OF A
PARTICULAR ITEM IS PRODUCED IN THE US, THE PUBLIC
REACTION IN SWITZERLAND TO COUNTING THE AMOUNT REPRESENTED
BY THE COST OF THAT COMPONENT AGAINST OFFSET
WOULD BE ADVERSE. HOWEVER, HE MADE IT CLEAR THAT IF
THE COMPANY ITSELF CHOSE TO PURCHASE COMPONENTS IN THE
US AS OPPOSED TO SWITZERLAND, E.G., PROVIDED THERE
WAS A CHOICE AND A DECISION AS TO COMPOSITION OF THE
END ITEM IS NOT MADE BY THE PURCHASER, HE WOULD
HAVE NO DIFFICULTY IN EXPLAINING THE COUNTING OF
THE ENTIRE AMOUNT. IF, ON THE OTHER HAND, A JET
ENGINE, FOR EXAMPLE ONE USED IN THE PILATUS, WAS
MANUFACTURED IN THE US AND THE SWISS COMPANY HAD
NO CHOICE, THEN HE DID NOT SEE HOW HE COULD EXPLAIN
INCLUDING THE COST OF THE ENGINE IN THE AMOUNT
COUNTED AGAINST OFFSET. NO AGREEMENT WAS REACHED
ON THIS POINT.

5. IT WOULD APPREAR THAT THE OCT 19 MEETING IN THE
US WILL GO SMOOTHLY. HUBER SAID THAT THE SWISS HAD
THREE POINTS THAT THEY WANTED DISCUSSED. FIRST,
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THEY WANT TO BE SURE THAT THE NEW ADMINISTRATION'S
APPOINTEES AT THE UPPER LEVELS OF THE PENTAGON ARE
FOLLY AWARE OF AND ARE SUPPORTING THE ACHIEVEMENT
OF THE GOALS OF THE OFFSET PROGRAM. SECOND, THEY
WANT THE DEPT OF DEFENSE TO SET UP SOME SORT OF
MECHANISM FOR SCREENING OPPORTUNITIES THAT MIGHT BE
AVAILABLE TO SWISS COMPANIES TO BID ON PARTICULAR
CONTRACTS AND TO SEARCH OUT THOSE ON WHICH SWISS
BIDDERS WOULD HAVE A POSSIBILITY OF SUCCESS. THIRD,
THEY WOULD LIKE CLEAR ASSURANCES THAT AGENCIES OTHER
THAN THE DEPT OF DEFENSE ARE PREPARED TO WAIVE
BUY-MAERICAN PROVISIONS FOR SWISS BIDDERS.

6. THE MEETING ON SEP 29 WAS FOLLOWED ON SEP 30
BY A MEETING OF WHAT WAS BILLED AS THE VSM STEERING
COMMITTEE. THE SWISS REPS CONSISTED OF THE MAJOR
SWISS AIRCRAFT COMPANIES, WHICH CLEARLY ARE DISSATISFIED
WITH THEIR SHARE OF THE OFFSET BUSINESS.
THE INDUSTRY IS PLANNING TWO MISSIONS TO THE US, ONE
TO PREPARE THE GROUND AND A SECOND AT A HIGHER LEVEL
TO FOLLOW UP WITH THE DEPT OF DEFENSE AND A NUMBER OF
US AIRCRAFT MANUFACTURERS. THEY HOPE TO IMPROVE

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THEIR PROSPECTS FOR OFFSET BUSINESS AS A RESULT.

7. EMBASSY COMMENT: WHILE IT WOULD NOT DO TO BE OVERLY OPTIMISTIC, SINCE THE OBSTACLES, PARTICULARLY THOSE RELATED TO THE SIZE AND COMPETITIVENESS OF SWISS COMPANIES, ARE FORMIDABLE, THE ATMOSPHERE DURING THIS MEETING WAS SUCH THAT WE BELIEVE THE SWISS PARTICIPANTS ARE CONVINCED OF OUR GOOD WILL AND OUR WILLINGNESS TO FULFILL OUR OBLIGATIONS. THEIR ATTITUDE IS OF COURSE DIRECTLY RELATED TO PERFORMANCE AND TO THE RATE AT WHICH THE CURVE OF OFFSET ORDERS IS RISING. WE CANNOT EXPECT THE SWISS TO RELAX THE PRESSURE BUT TO THE EXTENT THAT THIS MEETING IS A VALID MEASURE OF THEIR CURRENT ATTITUDE, WE BELIEVE
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THAT THEY ARE NOT LIKELY TO RETURN TO THE SORT OF RECRIMINATIONS AND ACCUSATIONS OF BAD FAITH THAT HAVE OCCASIONALLY OCCURRED IN THE PAST.
WARNER

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